

15 September 2009

SUMMARY OF THE PUBLIC HEARING ON CEBS'S DRAFT IMPLEMENTATION GUIDELINES ON THE REVISED LARGE EXPOSURES REGIME

On 12 June 2009, the Committee of European Banking Supervisors (CEBS) submitted for public consultation its draft implementation guidelines for three aspects of the revised large exposures regime:

- Definition of 'connected clients', and in particular the concept of 'interconnectedness'.
- Calculation of exposure values for schemes with exposure to underlying assets.
- Reporting requirements.

On 7 September 2009 CEBS organised a hearing open to all interested parties with a view to receiving preliminary feedback on its proposals. Market participants from European and national trade associations, representing both domestic and cross-border institutions, and from large and complex groups from different Member States contributed to a fruitful discussion.

CEBS initiated the discussion by providing an overview of its proposals and the discussion was structured around the three main topics.

Connected clients

A number of participants expressed some concerns on the proposed interpretation of connection based on a common main source of funding. It was highlighted that there are fundamental differences between conduits and that banks should assess the need to group them on a case-by-case basis.

Most participants favoured an increase in the proposed 1% own funds threshold – above which institutions would apply the process to identify connected clients – to a figure between 3% and 5%, which would keep the institutions' burden to an acceptable level.

A few participants highlighted that in some cases they do not have access to all the relevant information on their clients due to confidentiality reasons. Therefore the information necessary to assess interconnectedness should be gathered on a 'best efforts' basis.

One participant called for further guidance on the dividing line with sectoral and geographical risk in regard to the economic interconnectedness concept. Another participant call for exemption of 20% risk weighted Governments (and their regional and local authorities) from the requirement to group clients in relation to control.

Exposure values for schemes with exposure to underlying assets

Most participants expressed their concern on the proposed treatment of the 'unknown exposures' in the fall-back solutions for the treatment of the underlying exposures of a scheme. Participants argued that the treatment is too conservative and that some relief should be provided, e.g. by applying a haircut or by allowing banks to have several 'unknown counterparties'. CEBS invited participants to provide further input on this in their written responses.

One participant questioned whether the look-through approach could be considered the best option and argued that CEBS's approach should more in line with the banks' internal risk managements procedures.

Reporting requirements

Participants sought clarification on a number of specific issues. One participant questioned the added value of having to report large exposures at the counterparty level.

CEBS thanked participants for their feedback and has invited them to send their written comments by 11 September. In addition to the explanations provided during the hearing, CEBS will give further consideration to the issues and questions raised by participants.